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SHIP SUBSIDY TRUST.

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BY

HON. JOHN DEWITT WARNER.



The seventeenth in a series of articles issued by the New England Free Trade League.

SHIP SUBSIDY TRUST.

HONG KONG TRADING COMPANY



SHIPPING TRUST AND SHIP SUBSIDY TRUST TO BE FORMED BY THE COMPANIES OF THE HONG KONG TRADING COMPANY

SHIP SUBSIDY TRUST.

A COMBINE OF TRUSTS, BY TRUSTS, FOR TRUSTS.

The Hanna-Frye-Payne Bills. They "drip" with Philanthropy and Patriotism. Real Objects of the Capitalists who have framed the Bill to fit their Ships. Ocean Ship-builders' Trust waiting only for Subsidy. Lake Ship-builders' Trust forming. Subsidy Trusts in France and England. Standard Oil Lubrication. Trust Anarchism.

By HON. JOHN DEWITT WARNER.

In view of all the evidence that government bounties in the protective tariff lead to the formation of "trusts," this country should profit by experience and refuse to create a shipping trust by a shipping subsidy.

The pending ship subsidy bills provide that the United States Treasury shall contract to subsidize owners of certain shipping, for from twenty to thirty years, up to \$9,000,000 a year. The subsidy varies from 1 cent to 3.8 cents per ton of registered tonnage per 100 miles sailed, and will average about $1\frac{1}{4}$ cents for sail vessels and those making less than 14 knots an hour, and about $3\frac{1}{2}$ cents for swift passenger steamers. Minor features of the bill are incidentally discussed.

I. CHARACTERISTICS.

(1) The philanthropy and patriotism with which the title and preamble fairly drip.

A Bill to promote the Commerce and increase the Foreign Trade of the United States and to provide Auxiliary Cruisers, Transports, and Seamen for Government Use when Necessary.

Whereas the profitable employment of the surplus productive power of the farms, factories, mines, forests, and fisheries of the

United States imperatively demands the increase of its foreign commerce; and

Whereas the merchant vessels, officers, engineers, machinists, electricians, and seamen necessary to the increase of the commerce of the United States are also essential as auxiliary to the forces of the United States in time of war and otherwise, and to the better security of the nation and the protection of its possessions; and

Whereas it is deemed especially expedient to make immediate provision to these ends.

(2) The extent to which, in the body of the bill, provision is made exclusively for government bounty to ship-owners, without material relation to our export trade, American labor, or the navy.

(3) The provision in favor of foreign-built shipping, of which American citizens at present own a majority interest. This is dependent "upon such American owner or owners of such majority interest" obtaining the remaining interest, thus excluding other American citizens.

(4) The contrast between its provisions, the required 100 per cent. immediate American capital and the suggested 25 per cent. American labor, with such an exemption clause that under this bill no American sailor will ever be hired unless otherwise profitable to hire him, since ship-owners get their sailors anywhere, and no wage standard is suggested.

(5) The contrast in deep-sea fishing between the \$2 per gross ton yearly for full registered tonnage, though employed only three months in the year, with but one-third American crew, and the bounty to each American member of the crew of \$1 per month "during his time necessarily employed." Without a minimum wage, this \$1 bounty to sailors simply enables the ship-masters to get sailors at a dollar less a month, the government paying the difference.

(6) The proviso that, "if" required, a subsidized vessel shall carry "one American boy for each one thousand tons gross tonnage," who shall be kept at work at seamanship or engineering, to be paid what he earns, the boy being given no guarantee of after employment.

II. CONCERN FOR EXPORT TRADE A SHAM.

Subsidies are graded by the capacity and speed of ships, with no requirement of any cargo, the highest subsidy to the ships that carry the least cargo; *e.g.*, 3.8 cents per registered ton per 100

miles to the "great 21-knots ocean flyers," but only 1½ cents per ton per 100 miles to steamers of less than 14-knots speed.

Cabins, saloons, and other accommodations for passenger traffic leave but a small space for freight. Fast steamers also need more room for coal, engine-room and crew-room; *e.g.*, a 10-knot freighter, burning 35 to 40 tons of coal a day, and needing 12 men to handle it, would, if built for 20 knots an hour, require 300 tons of coal a day, with 100 men to "rush" it. While a "12,000"-ton 10-knot freighter can therefore carry 10 to 15,000 tons actual freight, a 12,000-ton 21-knot passenger steamer carries only 1,000 to 3,000 tons, making the subsidy, in proportion to freight carried, from 10 to 25 times as high for the typical passenger steamer as for the freighter. (Amendments so far proposed do not cure this.)

III. PROMOTION OF SWIFT MAIL OR TRANSPORT CRUISERS A SHAM.

Swift passenger steamers are so expensive to run that they have no existence except in trade (mainly transatlantic), in which they are already the most profitable. For this trade, therefore, they have been built, and would be built without subsidy. They will not be built for any other trade even with subsidy. This is admitted at page 34 of the House Hearings of January 10. Mr. Clyde, ship-builder, speaking on behalf of the bill, says:—

We know, from the inquiries we have made as to what ships will be built if this bill is passed, that all the vessels contemplated will be vessels of moderate speed, none of them exceeding 17 knots.

IV. THE ACTUAL OBJECT OF THIS BILL.

It is not hard to find the real object of this bill. At House Hearings, pages 24 and 25, Mr. Griscom explained:—

I should say off-hand that the 14-knot ship of the largest possible size — that would carry about 10,000 tons — would be the ship that under that ["subsidy"] bill would get the best compensation. . . . A great many are building in Great Britain now which will carry 10,000 tons of cargo, and not measure 10,000 [registered tonnage.]

Of such ships there are comparatively few in the world. They have only recently been built at all. In 1898, the greatest year for ship-building in the world's history, but 6 in all were turned out,—4 in Great Britain and 2 in Germany. But on Sept. 30, 1899,

there were then building of such vessels 16 in Great Britain and several in Germany, largely for our subsidy beggars.

Take two instances: Mr. Griscom, of the International Navigation Company or "American" line (House Hearings, page 25), admits his company has 8 vessels of over 10,000 tons and of speed 14 knots or above, on which to collect subsidy. At page 265 of the last report of the Commissioner of Navigation we find that, of these 8, in September last 4 were constructing abroad, 3 not to be completed until some time in 1901; also, that the Atlantic Transport Company had then 4 others under foreign construction; also, that in 1898 this last-named company built abroad 5 steamers of over 14-knots speed, averaging over 7,000 tons gross register each, these, with the 4 now building, being the only ones of their vessels that are fast enough to get the extra "speed" subsidy.

Of T. Hogan & Son's fleet of 12 ships (aggregating 47,000 tons) awaiting subsidy, 7 (aggregating 31,500 tons) were under construction in foreign ship-yards in September last. The case was similar with 2 (aggregating 9,400 tons) of Grace & Co.'s fleet of 6 (aggregating 21,600 tons).

The key to this energy is furnished by Senator Frye, who explains (Senate Hearings, page 2) that in 1897 the coterie behind this bill was organized.

In short, the object of this subsidy bill is not to encourage the building of ships which would not otherwise be built, but further to line the pockets of prosperous gentlemen who, without subsidy, have already built or contracted for the very ships to subsidize which this bill is framed.

V. SHAM PATRIOTISM.

The proposed guaranteed contracts for building ships here are farcical, for the great steel ships that are now rapidly supplanting all others can be built in this country cheaper than elsewhere in the world.

The only danger is: (1) allowing trusts to continue to charge American ship-builders higher prices for raw materials than those at which they supply foreign ones; (2) such a ship-builders' combine as, though ships are built here cheaper, shall compel our ship-owners to pay more for ships.

There is no probability of this unless (as proposed by this bill) ship-builders are either bought off by government largess from

insisting upon their rights against the steel trusts or guaranteed, at rates to be fixed by themselves, such an amount of ship-building that they can charge trust prices instead of competing to build ships at fair profit.

Again, sixteen voyages are permitted in each year. Even if a United-States-built vessel be assumed to draw subsidy upon only ten round trips of 6,400 miles each, say 64,000 miles, this, at the rate provided ($2\frac{1}{2}$ cents per gross ton per 100 miles for 1,500 miles on each outward and homeward trip, and 2 cents per ton remaining distance), means \$1.43 per ton for each voyage, say \$14.30 per ton each year, and \$143 per ton for the ten years permitted. That is, in the case of ships now having American registry, the aggregate security exacted for new construction within ten years is but \$2.50 per ton of present tonnage; and this security is a little less than one-fifty-seventh of the amount of the subsidy which the subsidy-getter may have drawn from the government before the security can be enforced.

VI. FOREIGN CAPITAL ADMITTED TO SUBSIDY.

While 100 per cent. American ownership is required to entitle a vessel to a twenty-year subsidy contract, there is nothing to prevent prompt sale of this interest to foreigners and the payment of the subsidy during the whole twenty years to foreign capitalists.

Indeed, by the proviso as to corporate ownership, it is contemplated that present stockholders of corporations, owning subsidized shipping, shall be enabled to "realize" at once by selling it abroad, the bounty of our government thereafter to go to foreign owners. See Senate Hearings, page 16:—

Senator ELKINS. . . . Now that corporation might be made up of citizens of the United States, and incorporated under the laws of the State of New York or West Virginia, or your State, and yet all the capital be held in England.

Mr. EDMUNDS [counsel for promoters of bill]: That is perfectly true.

VII. SHIPPING INDUSTRY PROSPEROUS WITHOUT SUBSIDY.

President McKinley, in his speech at the Chicago Commercial Banquet on Oct. 10, 1899, said:—

Our ship-building has been greatly increased. . . . Our tonnage increased during the year 100,000 tons, and is without a parallel in our recent history. More large ocean steamships are under construction in the United States than ever before. Our ship-building plants are being enlarged and new establishments projected.

From *Marine Review* (Cleveland), Feb. 8, 1900, is clipped:—

The Newport News Ship-building and Dry Dock Company of Newport News, Va., has assuredly had its full share of prosperity during the past year. The aggregate value of the new vessels and repair work within the twelvemonth has never had a parallel in any single yard in the history of American ship-building. . . .

VIII. CONSTANT DISCRIMINATION AGAINST PUBLIC INTERESTS.

The Secretary of the Treasury is to contract to pay subsidy for twenty years or more; and there is no condition under which the government can commute, much less get released. As to the vessel builders, however, it is provided: "But, if it shall happen that any such new vessels shall, without any fault or want of diligence on the part of the owners, fail to be built and registered as required, . . . the Secretary of the Treasury shall extend the time [for building] for such period or periods as shall seem to him to be just."

Under Section 5, government is to pay subsidy as per speed test (this on the corresponding assumption that fast costs more than slow steaming). But, under this bill, this same ship, in earning high-speed subsidy, can actually sail at the lowest speed that its owner finds most economical.

In the deep-sea fishery the vessel-owner is paid his yearly subsidy, even though the vessel may have been employed three-fourths of the time outside of this industry or laid up idle, while the petty bounty to American sailors is limited to "\$1 per month during the time necessarily employed."

IX. NO INCREASE OF SHIPPING.

Mr. FITZGERALD, of Massachusetts. How much money, Mr. Griscom, would your company ["American" line, etc.] receive next year?

Mr. GRISCOM. About one million four or five hundred thousand dollars, [expert calculations show this to be more nearly \$2,500,000], but we would have to relinquish to the government the \$750,000 we now get.

Mr. FITZGERALD. That would make how much?

Mr. GRISCOM. About \$750,000.

Mr. FITZGERALD. You say a net profit?

Mr. GRISCOM. I didn't say profit. I said compensation. Compensation goes towards equalizing the extra cost of running under the American flag.

At page 33 of House Hearings we find:—

Mr. CLYDE. . . . The sum that the American line ships will get under this bill will be no more than sufficient to compensate their American owners for the addition in cost of furnishing ocean transportation with that type of ship as compared with furnishing it under the British or Norwegian or other foreign flag in the same type of ship.

If the full subsidy permitted by the bill is bare compensation, as these gentlemen assert, then it is no encouragement whatever to any increase of shipping. Indeed, to any extent that the \$9,000,000 limitation reduced the subsidy paid below the full rate allowed, these subsidy beggars could not afford to run as many ships as they do now.

But any one who might otherwise credit the veracity of Messrs. Griscom and Clyde will be cured of such a mistake when he notes that, to one after another interest which grumbles at being left out, amendments are offered by which their own subsidy is further lessened, unless these amendments are but the basis of a larger combine promptly to remove the \$9,000,000 limitation.

X. AN IDEAL FIELD FOR A TRUST.

Mr. Edmunds says (House Hearings, page 6):—

Then another characteristic of this bill, and I might as well say it here, is that it provides an open field for everybody. There can be no syndicate formed, as there can in the case of railroads and plants which are on land, which are fixed, like the Standard Oil Company, for illustration. . . . Inasmuch as there are probably a thousand places in the United States where ships can be built, it would be impossible for a syndicate of all the ship-owners that are now in the United States to prevent anybody else who can get \$100,000 to-day from his neighbors from building one of these smaller classes of ships that are capable of sailing all over the ocean; and he could not be squeezed out.

Compare this with his statement (Senate Hearings, page 19) :—

Mr. EDMUNDS. . . . [The United Kingdom], building ships for all the world, are able to build them cheaper, aside from the cost of material, etc., from the fact that they do a wholesale business in this.

It is just like the case of the manufacturer. The man who has got a market for 10,000,000 yards of cotton . . . can turn that cotton . . . into the cloth, and sell it at 10 per cent. profit. Whereas I, who have an establishment and a capital enabling me to do only a quarter of that amount of business, would go bankrupt the first year if I only got 10 per cent.

Of concerns that are competent to handle contracts for such shipping, 10 include all in the United States that can claim so to be.

Indeed, a late report of the Commissioner of Navigation shows only 5 are now actually handling contracts for deep-sea shipping of even 3,500 tons or upwards; and only 3—the Newport News Ship-building Company, William Cramp & Sons, and the Union Iron Works—building ships of over 6,000 tons.

These three concerns are the giants of this industry, the investment of the first two being at least \$10,000,000 in each case, and the Union Iron Works probably using \$6,000,000 to \$10,000,000 of capital. One can easily imagine how much chance Mr. Edmunds's American citizen, with his hard-earned \$100,000, would have in competition with them.

XI. GREAT TRUSTS BEHIND SHIP SUBSIDY SCHEME.

The lion's share in this scheme is held by interests that can be named on the fingers of one hand. The coterie behind it are the leading trust interests of the country.

As to the prime movers, Mr. Griscom's company, the International Navigation Company, or "American" line, will be, by far, the greatest beneficiary under this bill.

The Chicago *Tribune* (Republican) thus summarizes:—

Among the officers of this so-called "American" line company . . . are: Clement A. Griscom, president; and W. H. Barnes, Alexander J. Cassatt, and W. E. Elkins, directors. That is not the only directory, however, of which these gentlemen are members. They are also directors of the Pennsylvania Railroad Company, and Cassatt is president of that company. . . .

John D. Archbold . . . and Henry H. Rogers are also directors of the International Navigation Company. The first-named is a prominent director, and the last-named director and vice-president of the Standard Oil Company. . . .

There is a concern known as the National Transit Company, which is a part of the Standard Oil Trust, and controls its oil-distributing business. Its relations with the Pennsylvania Company are exceedingly intimate. Among the directors of the National Transit Company are Archbold, H. H. Rogers, and Clement A. Griscom. The latter is the connecting link between the International Navigation Company, the Pennsylvania Railroad, and the Standard Oil Company.

XII. SHIP-BUILDING TRUSTS ORGANIZING.

The following, from New York *Herald* of Nov. 13, 1899, speaks for itself:—

Much interest has been aroused by the recent announcement in the *Herald* that steps are being taken to form a syndicate for the purpose of purchasing five of the largest ship-building plants in the United States. . . .

These are the plants which, it is said, the syndicate is anxious to obtain: William Cramp & Sons' Ship-building and Engine Building Company of Philadelphia; Newport News (Va.) Ship-building and Dry Dock Company; Union Iron Works of San Francisco; Columbian Iron Works of Baltimore, Md.; and the Bath (Me.) Iron Works. . . . J. and W. Seligman & Co. are said to have a hand in the financial arrangements. When I spoke to Mr. Henry Seligman yesterday, he said:—

"I will say that negotiations are in progress for a combination of several of the largest ship-building companies in the country. They have not yet been completed. The amount involved may be said to be in the neighborhood of \$20,000,000.

"I am not at liberty to discuss the matter further at this time, nor can I give the names of the concerns or individuals who are interested in the project. You may say that the firm of J. and W. Seligman & Co. is not interested as an investor. No foreign capital will be invested. Several New York men are interested in the plan." . . .

A large stockholder in the Cramp Company said:—

It is a fact that a syndicate has been formed with a view to combining the largest ship-building plants in the country. This syndicate, I am informed, have already secured options on the Newport News Ship-building and Dry Dock Company, the Union Iron Works

of San Francisco, and the Bath (Me.) Iron Works. There is plenty of money back of the syndicate. . . . The publicity which has been given the scheme in the last few days may seriously interfere with its consummation.

In view of claims that ship-building concerns on the Great Lakes can build deep-water vessels, and the great interest in the subsidy bill shown by Cleveland gentlemen, the following from the *Chicago Chronicle* of April 21, 1899, is of interest:—

With a capital stock of \$30,000,000, the newest of all the giant trusts, a consolidation of the ship-building interests of the Great Lakes was effected in New York yesterday. At the same meeting the directors practically decided that Cleveland, not Chicago, was to have the headquarters of the combine. . . .

In the new trust are the following concerns: American Steel Barge Company, West Superior, Wis.; Milwaukee Dry Dock Company; Chicago Ship-building Company; Detroit Dry Dock Company; Cleveland Ship-building Company; Lorain Globe Iron Works, Cleveland; Ship-owners' Dry Dock Company, Cleveland. . . .

Though the authorized capital is \$30,000,000, the actual capital is only \$14,000,000. Of this sum \$7,000,000 is non-accumulative 7 per cent. stock, and \$7,000,000 common stock. What purports to be an authoritative announcement of the formation of the combine is made in the *Cleveland Marine Review* of to-day. "Ship-yard Consolidation" is the appellation which the publication gives to the new trust. Organization of the company has been effected under the laws of New Jersey, and the concern is to be known as the "American Ship-building Company." . . .

From the start the trust will be in a position to pay big dividends, the promoters say, all the companies being in prosperous condition.

. . . In all not fewer than 10,000 persons have had steady employment in the yards of the concerns absorbed. Whether the formation of the trust will have the effect of reducing the number of employees is a problem which those interested say cannot at present be answered. However, the consolidation involves a plan to lessen operating expenses as well as to control the output and regulate prices.

XIII. SUBSIDY EVERYWHERE THE MOTHER OF TRUSTS.

Mr. Chamberlain, our Commissioner of Navigation, cites the relation to Great Britain of the Peninsular and Oriental Line as a

normal beyond which we have not gone, and, as an example of the beneficent effect to British interests of this policy, says:—

No more explicit statement could be asked for than the declaration of the president of the Peninsular and Oriental Company at the annual meeting two years ago:—

“Our policy is that of a British company, which is keenly alive to British interests, and I believe that, in this respect, represent the general feeling of the ship-owners of this country.”

In view of Mr. Chamberlain's reference to the Peninsular and Oriental as a sample of what we may hope for, he should be interested in the actual experience of Great Britain with that company. Mr. Thomas Scanlon's letter on “Trusts in Great Britain,” recently issued by the New England Free Trade League, is authority for the following statements on this subject:—

Mr. E. E. Williams, in his interesting little book entitled “Marching Backwards,” published a couple of years ago, shows how the “Shipping Ring” keeps up freights. From this it appears that the Peninsular and Oriental reciprocated the subsidy given it by charging much higher freights to English shippers than to their Belgian and German competitors. At Hong Kong the success of non-British as against British competition in trade became so pronounced that the governor appointed a committee to investigate the cause. The report of that committee was to the effect that the lower freights from foreign as compared with British ports was due to the action of the Shipping Conference, consisting chiefly of British steamship owners, which, while maintaining freights from British ports, carried cargo at a much lower rate from Continental and American ports. The report went on to suggest whether the imperial government would not be justified in requiring from the Conference a modification of their freight rates before continuing a subsidy or support to any shipping company which is a party to a compact that places British manufacturers at a disadvantage as compared with foreign rivals.

Mr. Chamberlain's reference to French subsidies is equally fortunate—for the opponents of the Hanna-Frye-Payne Bill. The committee of the French Chamber of Deputies last year reported that the merchant marine was in such a state of decadence as to cause uneasiness about the navy; and the *New York Journal of Commerce* notes:—

The construction bounty paid to steamers not receiving postal subsidies has had no beneficial effect. The construction of steamers

under this head averaged 19,434 tons from 1881 to 1884, and only 6,116 tons from 1895 to 1897. In 1893 the half-bounty paid to foreign-built vessels under the French flag was withdrawn for the benefit of the French ship-yards. The consular report summarizes the evidence in the statement "that the law of 1893, enacted for the purpose of improving the efficiency of the French merchant marine, has not accomplished its purpose. . . ."

Evidently, the French ship-yards had combined, not only to avoid competition, but to exact the entire government aid from the ship-owner. Speaking of the law of 1893, the consular report says the ship-owners, "at first disposed to give orders to domestic builders, found the latter constantly increasing their prices, until the point was reached where the builders were accused of calculating the amount of premium which proposed constructions would command, and adding that amount to their own cost price, thus absorbing the premium for navigation and the one for construction. . . . It is freely said that the three companies named are virtually agreed as to prices."

XIV. TRUST ANARCHISTS.

If it were not too serious, it would be interesting in this connection to note the lack of a sense of humor in men like Hanna and other leaders and go-betweens in this matter, when they or their kind deprecate populism, anarchy, and other heresies ascribed to those who question their representation of Patriotism and Providence. Every time Senator Hanna defends such a steal, or Mr. McKinley connives at it, or Mr. Griscom stands in public holding his pockets open to be filled from the treasury, more conservative American citizens, who until then have believed they belong to the party of Abraham Lincoln, are convinced that, if this be government, then something else is better, than could ever have been thus persuaded by the most eloquent avowed anarchist in the world.

NEW YORK, Feb. 26, 1900.

